

Report of: Executive Member for Finance &amp; Performance

| Meeting of            | Date             | Ward(s)    |
|-----------------------|------------------|------------|
| Executive             | 10 February 2022 | All        |
| Delete as appropriate | Exempt           | Non-Exempt |

## **Budget Proposals 2022/23, Medium-Term Financial Strategy and Business Rates Relief Schemes**

### **1. Synopsis**

- 1.1. The principal purpose of this report is for the Executive to agree proposals in respect of the council's 2022/23 budget and level of council tax and the latest assumed medium-term financial position, for onward recommendation to Full Council. Related to the budget, the design of the discretionary COVID-19 Additional Relief Fund scheme and the adoption of the Retail Relief Scheme regarding business rates are also presented for approval in this report.
- 1.2. The COVID-19 crisis has had a massive impact on the council's work, and how it supports and delivers its services to residents and local people. Demand for services has risen sharply. The pandemic has also created opportunities for the council to work with communities, partner organisations and businesses to build back differently and realise our collective ambitions for the future.
- 1.3. The 2022/23 budget outlines how the council will continue to invest in innovative improvements to support these efforts. It also continues to safeguard investment in the services and support which people value and rely on.
- 1.4. Alongside this, the council is having to make new, ongoing savings of £3.530m in 2022/23, in addition to those previously agreed, with local government funding failing to keep up with rising costs and demand for council services.

- 1.5. The pandemic is expected to have a significant lasting impact on the council's budget. The sales, fees and charges income compensation scheme has now ended, and the government has indicated that there will be no additional COVID-19 funding for local authorities in 2022/23. This reinforces the need to have sufficient coverage in the council's base budget and reserves for hardening and emerging budget risks over the medium term and beyond.
- 1.6. The government has assumed in its local government funding calculations that, in 2022/23, the council will increase core council tax by the maximum amount (1.99%) and will apply a further 1% Adult Social Care (ASC) precept. This is reflected in the 2022/23 budget proposals. Subject to review as part of future budget setting cycles, the medium-term financial strategy (MTFS) also assumes core council tax increases of 1.99% in 2023/24 and 2024/25.
- 1.7. For the average (Band D) property, the total 2.99% increase in the basic Islington council tax (excluding the GLA precept) equates to an increase of around 73 pence per week for full council tax payers. Despite the proposed increase in council tax, working aged council tax support recipients living in a Band D property will pay around 82 pence per week less in 2022/23 due to the enhancement of the council tax support scheme.
- 1.8. The Mayor of London has published his draft consolidated budget, capital spending plan and provisional council tax precept for 2022/23 for consultation. The proposed precept on Band D council taxpayers in the 32 London Boroughs is £395.59 - a £31.93 or 8.8% increase compared to this year. Combined with the proposed 2.99% increase in Islington council tax, this would equate to a total increase of 4.27% for Islington council tax payers.
- 1.9. The Policy and Performance Scrutiny Committee reviewed the budget proposals on 20 January 2022 and its comments have been taken into account in finalising the budget proposals and proposed level of council tax.
- 1.10. The council also invited comments from business rates payers and representative of business rates payers in Islington on the draft 2022/23 budget proposals. The consultation period ran from 6 January 2022 to 26 January 2022. No comments were received.
- 1.11. The contents of the report are summarised below:
  - **Section 2** sets out the recommendations.
  - **Section 3** summarises the assumptions within the General Fund MTFS and sets out the 2022/23 net revenue budget, fees and charges and estimated reserves.
  - **Section 4** covers the Housing Revenue Account (HRA) and includes HRA rents, service charges and other fees and charges.
  - **Section 5** summarises the 2022/23 to 2024/25 capital programme and funding, and the latest indicative long-term programme up until 2031/32. The Capital Strategy, Treasury Management Strategy, Minimum Revenue Provision (MRP) Policy Statement and Investment Strategy are included as appendices.
  - **Section 6** includes the detailed, statutory council tax calculations and matters relating to retained business rates.

- **Section 7** details the matters to formally consider in setting the final budget, namely the comments of the Section 151 Officer and the Monitoring Officer, a cumulative Equality Impact Assessment (EQIA) of the budget proposals and budget consultation requirements. It also includes the Annual Pay Policy Statement 2022/23.

## **2. Recommendations**

### **The General Fund Budget 2022/23 and MTFS (Section 3)**

- 2.1. To agree and recommend to Full Council the latest MTFS and balanced 2022/23 budget, including the underlying principles and assumptions. (**Paragraphs 3.1-3.38, Table 1 and Appendix A**)
- 2.2. To agree and recommend to Full Council the proposed 2022/23 net budgets by directorate. (**Paragraph 3.3, Table 2 and Appendix A**)
- 2.3. To note that the annual budget for the London Councils Grant Committee was reported to the Voluntary and Community Sector Committee on 25 January 2022 for information. (**Paragraph 3.22-3.23**)
- 2.4. To agree to delegate authority to the Corporate Director of Resources to revise external funding estimates prior to the final version of this report for Full Council on 3 March 2022, should this be necessary. (**Paragraphs 3.20 and 3.25**)
- 2.5. To agree and recommend to Full Council the 2022/23 savings and note that individual savings may be subject to individual consultation before they can be implemented. (**Paragraphs 3.39-3.43, Table 5, and Appendix B**)
- 2.6. To note the Dedicated Schools Grant (DSG) settlement for 2022/23 and related funding assumptions. (**Paragraphs 3.44-3.51**)
- 2.7. To agree the fees and charges policy and the General Fund fees and charges for 2022/23 (**Paragraphs 3.52-3.59 and Appendix C**)
- 2.8. To agree and recommend to Full Council the policy on General Fund contingency and reserves and agree the movements to/from earmarked reserves assumed as part of the 2022/23 revenue budget. (**Paragraphs 3.60-3.69, Table 6 and Table 7**)
- 2.9. To agree and recommend to Full Council that the Section 151 Officer is delegated responsibility for any technical adjustments required for the 2022/23 budget (in line with the council's Financial Regulations).
- 2.10. To agree and recommend to Full Council that centrally held gross demographic growth be allocated to service budgets only when the need materialises and as approved by the Section 151 Officer (**Paragraph 3.14**)

### **The HRA Budget and MTFS (Section 4)**

- 2.11. To agree and recommend to Full Council, the balanced HRA 2022/23 budget and note the latest estimates over the three-year MTFS period. (**Paragraphs 4.1-4.3, Table 8 and Appendix D1**)
- 2.12. To note the HRA rents and to agree, following minor revisions to the version agreed by the Executive on 13 January 2022, the other HRA fees and charges for 2022/23. (**Paragraphs 4.4-4.29, Tables 9-11 and Appendix D2**)

- 2.13. To agree the introduction of a points-based apportionment method from April 2022 to revise the way in which Housing Leaseholder Service Charges are calculated. (**Paragraph 4.9, and Appendix D3**)
- 2.14. To note that the HRA 30-year business plan will be updated to reflect the impact of the latest rent setting proposals as well as other agreed increases in expenditure not previously anticipated. (**Paragraph 4.2**)

### **Capital Investment and Treasury and Investment Management (Section 5)**

- 2.15. To agree and recommend to Full Council, the proposed 2022/23 to 2024/25 capital programme and note the indicative long-term capital programme for 2025/26 to 2031/32. (**Paragraphs 5.3, Table 12 and Appendix E1**)
- 2.16. To note the estimated funding of the 2022/23 to 2024/25 capital programme and to delegate authority to the Section 151 Officer, where necessary, to apply capital resources to fund the capital programme in the most cost-effective way for the council. (**Paragraph 5.10 and Table 13**)
- 2.17. To agree and recommend to Full Council the Capital Strategy, Minimum Revenue Provision (MRP) Policy Statement, Treasury Management Strategy and Investment Strategy. (**Paragraph 5.12 and Appendices E2-E5**)

### **Council Tax and Retained Business Rates (Section 6)**

- 2.18. To note the 2021/22 council tax and business rates forecasts and budgetary impact over the medium term. (**Paragraph 6.1-6.3**)
- 2.19. To agree and recommend to Full Council the calculations required for the determination of the 2022/23 council tax requirement and the level of council tax as detailed in **Section 6** and summarised below.
  1. The 2022/23 council tax requirement of **£105,425,628.21** (**Paragraph 6.8 and Table 15**)
  2. The relevant basic amount of Islington Band D council tax of £1,314.65, a 2.99% increase compared to 2021/22 (comprising 1% specifically for expenditure on adult social care and 1.99% for all expenditure), and this is not 'excessive'. (**Paragraph 6.9 and Table 16**)
  3. The basic amount of Islington Band D council tax for dwellings to which no special item relates (i.e., outside of the Lloyd Square Garden Committee area) of £1,314.65. (**Paragraph 6.11 and Table 17**)
  4. The amount of 2021/22 council tax (excluding the GLA precept) for each valuation band over each of the council's areas. (**Paragraph 6.13 and Table 18 and Table 19**)
  5. The total amount of 2021/22 council tax (including the GLA precept) for each valuation band over each of the council's areas. (**Paragraph 6.15 and Table 21 and Table 22**)
- 2.20. To note the council's estimated retained business rates funding in 2022/23, as per the 2022/23 NNDR1 return estimate. (**Paragraph 6.17 and Table 23**)
- 2.21. To note the council's forecast NNDR surplus/(deficit) in 2022/23. (**Paragraph 6.18 and Table 24**)
- 2.22. To agree the recommended design of the discretionary COVID-19 Additional Relief Fund scheme for 2022/23 and retrospective approval of the 2021/22 scheme. (**Appendix F**)

- 2.23. To agree the adoption of the Retail Relief Scheme for 2022/23 and retrospective approval of the 2021/22 scheme. (**Appendix G**)

**Matter to Consider in Setting the Budget (Section 7)**

- 2.24. To have regard to the Section 151 Officer's report on the robustness of the estimates included in the budget and the adequacy of the proposed financial reserves when making decisions about the budget and the level of council tax, as required under Section 25(2) of the Local Government Act 2003. (**Paragraphs 7.1-7.7**)
- 2.25. To note the initial assessment of compliance against the CIPFA Financial Management Code and that this will be re-visited at least annually as part of the budget process, with any actions or recommendations implemented on an ongoing basis. (**Paragraph 7.5 and Appendix H**).
- 2.26. To note the Monitoring Officer comments. (**Paragraphs 7.8-7.12**)
- 2.27. To note the Equality Impact Assessment (**Paragraphs 7.13-7.15 and Appendix I**) and to take fully account of it in approving the overall budget and related proposals.
- 2.28. To note that the council invited business rate payers or representatives of business rate payers in Islington to comment on the draft 2022/23 budget proposals, as required under Section 65 of the Local Government Finance Act 1992, and that no responses were received. (**Paragraphs 7.16-7.18**)
- 2.29. To agree and recommend to Full Council the Annual Pay Policy Statement 2022/23. (**Paragraph 7.19 and Appendix J**)

### **3. General Fund MTFS and 2022/22 Revenue Budget**

#### **Summary of MTFS 2022/23 to 2024/25**

- 3.1. The latest assumed budget position in 2022/23 and over the medium term is summarised in **Table 1** and detailed at **Appendix A**. There was an estimated gross budget gap of £11.538m in 2022/23 (balanced in full by the proposals in this report) and £56.025m over the medium term (with a remaining estimated three-year gap of £38.997m after the proposals and underlying assumptions in this report).

**Table 1 – Summary Budget Gap 2022/23 to 2024/25**

|   | <b>2022/23<br/>£m</b> | <b>2023/24<br/>£m</b> | <b>2024/25<br/>£m</b> | <b>Total<br/>£m</b> |
|---|-----------------------|-----------------------|-----------------------|---------------------|
| Pay and pension inflation               | 9.830                 | 8.850                 | 4.860                 | 23.540              |
| Non-pay/contract inflation              | 5.879                 | 4.350                 | 4.350                 | 14.579              |
| Demographic growth                      | 3.057                 | 3.038                 | 5.000                 | 11.095              |
| Corporate Items/Base budget adjustments | 0.071                 | 1.525                 | 5.776                 | 7.372               |
| Investment growth                       | 2.000                 | 0.000                 | 0.000                 | 2.000               |
| Government funding                      | (9.299)               | 6.738                 | 0.000                 | (2.561)             |
| <b>Gross Budget Gap</b>                 | <b>11.538</b>         | <b>24.501</b>         | <b>19.986</b>         | <b>56.025</b>       |
| Previously agreed savings               | (3.246)               | (0.540)               | 0.000                 | (3.786)             |
| New savings proposals                   | (3.530)               | (0.459)               | 0.000                 | (3.989)             |
| Retained business rates income          | (1.509)               | 1.509                 | 0.000                 | 0.000               |
| Council tax income                      | (3.253)               | (3.000)               | (3.000)               | (9.253)             |
| <b>Net Budget Gap</b>                   | <b>(0.000)</b>        | <b>22.011</b>         | <b>16.986</b>         | <b>38.997</b>       |

- 3.2. The proposed 2022/23 budget adheres to the following key principles.
- Compliance with the CIPFA Financial Management Code – this report includes a self-assessment of the council against the Code.
  - Setting a balanced budget for the year ahead and working up robust estimates and funding scenarios over a three-year period, as well as longer-term horizon scanning.
  - Fully budgeting for ongoing budget pressures, and not applying one-off funding to bridge ongoing funding gaps.
  - Reflecting the ongoing revenue cost of the capital programme (both the cost of interest and prudently setting aside enough to repay debt principal) in the revenue budget, in particular considering the potential for interest rates to increase in the future.
  - Not assuming additional funding from central government until it is confirmed and developing exit plans for specific funding streams ending at short notice.
  - Increasing the level of council tax in line with the government's expectations in local government finance settlements to avoid an ongoing shortfall in the base budget.
  - Setting a sufficient contingency budget for in-year budget risks and using available one-off funding to strengthen financial resilience in reserves for hardening and emerging budget risks over the medium term.
  - Maintaining a balance in the Core Funding Reserve to mitigate against a potential fall in retained business rates income.

## Net Revenue Budget 2022/23

- 3.3. **Table 2** summarises the proposed 2022/23 net revenue budget by directorate (cash-limited budgets). A breakdown of the movement between the 2021/22 and 2022/23 budget is shown at **Appendix A**.

**Table 2 – Net Revenue Budget 2022/23**

|  | <b>2022/23<br/>Net Budget<br/>£m</b> |
|--|--------------------------------------|
| Adult Social Services                          | 56.768                               |
| Chief Executive's Directorate                  | 1.228                                |
| Children's Services                            | 85.021                               |
| Community Wealth Building                      | 16.295                               |
| Environment                                    | 5.385                                |
| Fairer Together                                | 7.201                                |
| Homes & Neighbourhoods                         | 6.354                                |
| Public Health (net nil as wholly grant funded) | 0.000                                |
| Resources Directorate and Central Costs        | 49.483                               |
| <b>Net Cost of Services</b>                    | <b>227.735</b>                       |
| Contingency                                    | 5.000                                |
| Transfer to/(from) Earmarked Reserves          | (16.052)                             |
| Unringfenced Grants                            | (8.279)                              |
| <b>Net Budget Requirement</b>                  | <b>208.404</b>                       |
| Settlement Funding Assessment                  | (110.601)                            |
| Business Rates Growth/Section 31 Grant         | (15.138)                             |
| Collection Fund Deficit                        | 22.761                               |
| <b>Council Tax Requirement</b>                 | <b>105.426</b>                       |

## Economic Forecasts

- 3.4. The Office for Budget Responsibility's (OBR) latest economic forecasts, published alongside the Autumn Budget and Spending Review 2021, showed an improvement compared to the previous forecasts in March 2021. The successful vaccine rollout and consumers' and businesses' adaptability to public health restrictions has allowed faster than expected recovery. However, domestic and international markets have suffered from supply constraints, exacerbated by changes following the UK Exit from the EU.
- 3.5. The economy is expected to grow by 6.5% in 2021 (2.4% higher than forecast in March 2021). Future year growth is forecast at 6.0% in 2022, 2.1% in 2023 and 1.3% in 2024.
- 3.6. Inflation (Consumer Price Index, CPI) was forecast to reach 4.4% in the second quarter of 2022 (2.6% higher than forecast in March 2021) and return to the government's 2% target in 2024. However, CPI has since surged to 5.4% in December 2021 (up from 5.1% in November 2021) and is forecast to peak at around 6% in April 2022.
- 3.7. The economy is expected to regain its pre-pandemic size by around the end of 2021 (previously mid 2022). Economic scarring from the pandemic is forecast at 2% (down from 3% in the March 2021 forecast).

- 3.8. Unemployment is now predicted to peak at 5.25% (1.25% less than forecast in March 2021). Vacancies have reached a record high of 1.1 million. However, the share of unemployed people who are classified as long-term unemployed has continued to rise and is now at a five-year high at almost 30% of the unemployed.
- 3.9. Lower borrowing over the forecast period means that public sector net debt is now forecast to peak below 100% of GDP at 98.2% this year.

### **Key Revenue Cost Pressures**

- 3.10. The MTFS assumes a 2.0% per annum pay award in 2021/22 and over the medium term. As the 2021/22 budget assumed a pay freeze (in line with government expectations at the time), the 2022/23 budget must make provision for both the 2021/22 and 2022/23 pay awards. Every 1% increase in pay equates to approximately £1.75m for the General Fund. It is possible that pay settlements could be higher than 2% with inflation now forecast to peak at 6% (and potentially higher) in 2022 and to be above the government's 2% target for most of the MTFS period.
- 3.11. As a result of the recently announced Health and Social Care reforms, there will be a 1.25% increase in employer National Insurance Contributions (NICs) from April 2022. This equates to a pressure of approximately £2m per annum on the council's General Fund employee costs of at least £2m per annum. There will be a further related pressure on ring-fenced areas of the council's budget such as the Housing Revenue Account (HRA) as well as on the council's contracts.
- 3.12. Employer pension contributions are expected to be broadly unchanged in 2022/23 based on the 2019 triennial pension fund valuation, with a stepped increase in costs expected in 2023/24 following the 2022 valuation. In addition, the MTFS includes £1m per annum additional provision from 2022/23 and over the medium term towards the historical pension fund deficit.
- 3.13. The MTFS provides for contract and non-pay inflation that cannot be managed within existing budgets. This includes the significant impact on adult social care contracts of the National Living Wage (from £8.91 to £9.50 per hour), London Living Wage (from £10.85 to £11.05 per hour) and National Insurance (1.25% increase) increases. It also includes provision for the potential impact of rising energy costs.
- 3.14. A further, significant cost pressure for the council is the increasing quantum and complexity of demand for council services. Based on latest estimates, the MTFS assumes demographic budget growth of £3.057m in 2022/23 and £11.095m over the medium term. This is the net growth requirement after planned management actions to mitigate cost increases. There is considerable uncertainty around these estimates due to the unknown lasting impact of the pandemic on demand. It is recommended that gross demographic growth is held centrally and allocated to service budgets in-year only when a more evidence-based assessment is available and has been approved by the Section 151 Officer.
- 3.15. The number of residents requiring adult social care has risen over the past number of years. This demand is driven by:
- An ageing population with people living longer with multiple of complex needs requiring social care.



- Increased prevalence of learning disabilities or physical or mental illness among working-age adults over recent years.
- The COVID-19 pandemic and related hospital discharge schemes have exacerbated this demand.

3.16. The demographic growth for Adult Social Services is split into the following client groups:

- Memory, Cognition, and Physical Support – It is estimated that approximately 8% of Islington's population is aged over 65. Between 2017 and 2027 the Islington population aged over 65 is projected to rise by 27%.
- Mental Health, Learning Disabilities and Physical Disabilities - People are living longer but are developing long-term conditions earlier in life. There are also a growing number of frail older family carers. Planning is necessary to meet the needs of an increasing number of people with profound and multiple disabilities and manage the resulting pressure on resources.

3.17. The demographic growth for Children's Services relates to the following service areas:

- Demand pressures in relation to Children's Social Care – Bed night activity increased by 10% during 2020/21. While it has partially subsided in the first half on 2021/22, underlying demand and cost pressures remain particularly in residential provision, independent living and fostering. Alongside this we are seeing increased numbers of care leavers as increasing numbers of children in care reach 18 years of age.
- Increased provision of home to school transport as the numbers of pupils with special educational needs and disabilities continues to increase.
- An increase in provision of school uniform grants and post-16 bursaries because of the eligibility for free school meals increasing during the pandemic.

3.18. The 2022/23 recurrent budget includes £2m for investment in Member priorities. This is summarised below.

- Expansion of the Council Tax Support Scheme (CTSS) (£0.676m) by increasing working-aged support from the current 91.5% to 95%, as agreed by Full Council on 9 December 2021.
- Revenue cost of capital (£0.650m) associated with the new £10m capital investment pot to support key community priorities across the borough (see **Section 5**).
- Enhanced Childcare Bursary Scheme (£0.120m) to extend the childcare bursary scheme to support an additional estimated 300 parents per annum.
- Local Community Infrastructure Levy Top Ups (£0.050m) – The council currently operates a Community Infrastructure Levy (CIL) top-up scheme whereby those wards with negligible development, and therefore very low to zero local share CIL funding, receive a top-up of £0.030m per annum to support local infrastructure projects. The top-up value has not been increased for several years to reflect increasing costs, and it is proposed to increase the top-up to £0.075m per annum to allow all wards to deliver impactful projects and better meet local needs and priorities. Recurrent budget growth of £0.050m will be required each year going forward and reflects the estimated cost of this change in terms of reduced strategic share CIL funding and increased revenue cost of borrowing to fund the capital programme.

- Remaining amount of £0.554m to be allocated by the Executive during the financial year in accordance with the council's financial regulations.

- 3.19. The council is committed to paying levies to various external organisations, estimated to total £16.821m in 2022/23. The most significant levies are the council's contribution to Transport for London (TfL) for the cost of concessionary fares (London Freedom Pass) and the North London Waste Authority (NLWA) levy towards the disposal of household waste in partnership with six other north London boroughs.
- 3.20. The latest estimated levies for 2022/23 are shown in **Table 3**. It is recommended that authority is delegated to the Corporate Director of Resources (Section 151 Officer) to revise levies assumptions, if necessary, following confirmation from levying bodies in February 2021.

**Table 3 – Levies 2022/23**

|                                       | <b>2021/22<br/>Budget<br/>£m</b> | <b>2022/23<br/>Estimate<br/>£m</b> | <b>Increase/<br/>(Decrease)<br/>£m</b> |
|---------------------------------------|----------------------------------|------------------------------------|--|
| Concessionary Fares                   | 9.932                            | 7.471                              | (2.461)                                |
| NLWA Household Levy                   | 6.195                            | 6.908                              | 0.713                                  |
| London Pensions Fund Authority        | 1.185                            | 1.209                              | 0.024                                  |
| Inner North London Coroner's Court    | 0.360                            | 0.367                              | 0.007                                  |
| Traffic and Control Liaison Committee | 0.254                            | 0.290                              | 0.036                                  |
| Lee Valley Regional Park Authority    | 0.194                            | 0.198                              | 0.004                                  |
| Environment Agency (Thames Region)    | 0.190                            | 0.194                              | 0.004                                  |
| London Boroughs Grants Scheme         | 0.180                            | 0.184                              | 0.004                                  |
| <b>Total</b>                          | <b>18.490</b>                    | <b>16.821</b>                      | <b>(1.669)</b>                         |

- 3.21. The overall decrease in the levies budgets is due to the further significant decrease in concessionary fares due to reduced passenger numbers on Transport for London (TfL) services since the start of the pandemic. The budget is forecast to return to its pre-pandemic level by 2024/25.
- 3.22. The London Boroughs Grants Committee contributes towards the funding of many London-wide organisations providing a wide range of services. These services are accessible by Islington residents and contribute towards the council's priorities including tackling homelessness, dealing with violence against women and girls and support people with no recourse to public funds.
- 3.23. The London Councils Grants Committee considered proposals for expenditure in 2022/23 at its meeting on 24 November 2021. The London Councils Leaders' Committee considered a budget at its meeting on 7 December 2021 and the following recommendation is now made for constituent councils (including Islington) to agree an overall level of expenditure of £6,668,000 comprising:
- Payments to Commissions - £6,173,000
  - Administrative Expenditure - £435,000
  - London Funders Membership Fees - £60,000
  - Borough contributions - £6,668,000 (Islington contribution £183,779)

3.24. In order to help protect much-needed reserves, the 2022/23 base budget and MTFS additionally provides £1.5m per annum budget for corporate transformation projects.

### **Provisional Local Government Finance Settlement 2022/23**

3.25. The provisional local government finance settlement for 2022/23 was announced on 16 December 2021. The final settlement is due to be announced early February 2022. It is recommended that authority is delegated to the Corporate Director of Resources (Section 151 Officer) to revise external funding assumptions following the Final Local Government Finance Settlement and prior to the final version of this report for Full Council on 3 March 2022.

3.26. Based on the government's methodology, Islington's Core Spending Power (CSP) will increase by 6.57% in 2022/23 in cash terms, slightly less than the national average increase of 6.88%. This represents a real-term increase in resources of approximately 4%. Within this, it is assumed that the council will raise council tax by the maximum amount (1.99% referendum limit and 1% ASC precept).

3.27. Despite an increase in local government funding in 2022/23, this falls considerably short of rectifying government funding cuts to councils over the past decade. This is illustrated by the chart below. The chart shows the percentage change in core government spending (excluding COVID-19) by government department from 2009/10 to 2021/22. Local Government (within the Department for Levelling Up, Housing & Communities, previously named MHCLG) has been the most severely affected area with real-term funding cuts of around 60% since 2009/10.

Figure 5.4. Percentage change in departmental 'core' (non-virus) resource budgets, 2009–10 to 2021–22

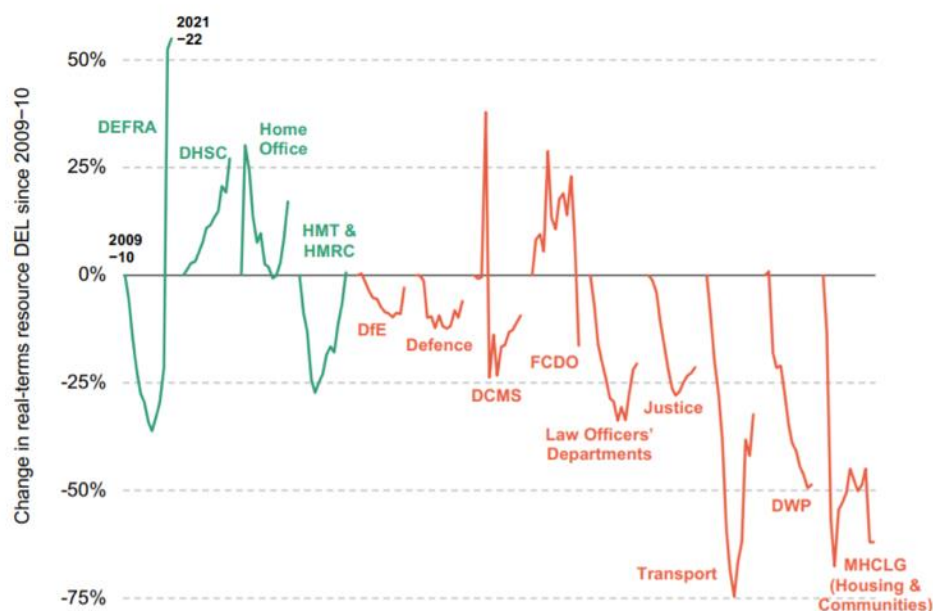


Chart referenced from: IFS Green Budget 2021 (<https://ifs.org.uk/uploads/IFS-Green-Budget-2021-.pdf>)

3.28. It was announced in the settlement that local government funding reform work is due to restart in spring 2022. This means that the Fair Funding Review (which Islington stood potentially to lose out from under a redistribution of local government funding) and

business rates baseline reset are likely to be under consideration again, for possible implementation from 2023/24. This is a significant uncertainty in the MTFS going forward.

### ***Settlement Funding Assessment (SFA)***

- 3.29. Islington's SFA is made up of a Baseline Funding Level (BFL) under the partial (30%) business rates retention system (comprising a business rates baseline and a 'top-up' grant) and Revenue Support Grant (RSG). This is summarised in **Table 4** below.

**Table 4 – Settlement Funding Assessment (SFA)**

|                                      | <b>2021/22</b> | <b>2022/23</b> | <b>Increase/<br/>(Decrease)</b> |
|--------------------------------------|----------------|----------------|---------------------------------|
| Business Rates Baseline              | 82.456         | 82.456         | 0.000                           |
| Top-Up Grant                         | 2.798          | 2.798          | 0.000                           |
| <b>Baseline Funding Level</b>        | <b>85.254</b>  | <b>85.254</b>  | <b>0.000</b>                    |
| Revenue Support Grant                | 24.590         | 25.347         | 0.757                           |
| <b>Settlement Funding Assessment</b> | <b>109.844</b> | <b>110.601</b> | <b>0.757</b>                    |

- 3.30. The BFL will be the same as in 2021/22 due to the previously announced freezing of business rates in 2022/23. The council will receive offsetting grant funding to compensate for the impact of the business rates freeze on its retained rates income.
- 3.31. In 2022/23, RSG will increase in line with the September 2020 to September 2021 change in the Consumer Price Index (CPI, 3.1%). The government also intends to roll into the RSG two small New Burdens grants (the Electoral Registration Grant and the Financial Transparency of Local Authority Maintained Schools Grant).

### ***Services Grant 2022/23***

- 3.32. Islington will receive £5.877m from the new, one-off 2022/23 Services Grant. As well as other immediate pressure in the sector, this is intended to fund the 1.25% increase in employer National Insurance Contributions (Health and Social Care Levy) in 2022/23.
- 3.33. The settlement makes clear that this grant is one-off in nature and that it will be excluded from potential transitional protections put in place to support local authorities when the assessment of council's needs and resources is updated. Pending further clarity, it is assumed in the MTFS that the council will not continue to receive this additional funding in 2023/24 and 2024/25.

### ***Social Care Funding***

- 3.34. The council will receive social care grant funding of £29.060m in 2022/23, comprising £14.502m Improved Better Care Fund and £14.558m Social Care Grant. This is an increase of £3.781m compared to 2021/22.
- 3.35. In addition, the council will receive £0.868m in 2022/23 from the £162m Market Sustainability and Fair Cost of Care Fund (Social Care Reforms). The purpose of this grant (funded from the Health and Social Care Levy) is to support local authorities prepare markets for reform and move to paying providers a fair cost of care. There is a significant risk for local authorities that the overall quantum and distribution of funding for ASC reforms will be insufficient to meet the additional costs of implementing the reforms.

### ***New Homes Bonus (NHB)***

- 3.36. There will be a rollover of the 2021/22 policy on NHB for a new round of payments in 2022/23. These payments will not attract new legacy commitments. This equates to additional, one-off funding of £0.212m for Islington.

### ***Lower Tier Services Grant***

- 3.37. This was a new grant in 2021/22, the function of which appears to be to reduce the range of increases in Core Spending Power, largely by 'levelling up' those with the lowest taxbase, and to provide a 'floor' increase for every authority. Islington will receive £0.971m from the Local Tier Service Grant in 2022/23, an increase of £0.049m.

### ***Other Grants***

- 3.38. A number of other specific grants, including the ring-fenced Public Health grant and the former Independent Living Fund recipient grant, sit outside the main local government finance settlement and for which 2022/23 allocations have not yet been announced. The MTFS assumes that any changes in these specific grants compared to 2020/21 will have a neutral impact within the related service area.

### **Revenue Savings**

- 3.39. The 2022/23 revenue budget assumes the delivery of savings totalling £6.776m in 2022/23 (**Appendix B**) of which £3.530m are new savings proposals for agreement in this report and £3.246m are previously agreed from prior year budget setting processes. This is summarised by type of saving in **Table 5**.

**Table 5 – 2022/23 Budget Savings**

| <b>Type</b>             | <b>New Savings<br/>£m</b> | <b>Previously<br/>Agreed<br/>£m</b> | <b>Total<br/>£m</b> |
|-------------------------|---------------------------|-------------------------------------|---------------------|
| Efficiency              | 1.350                     | 1.035                               | <b>2.385</b>        |
| Funding Substitution    | 0.500                     | 0.000                               | <b>0.500</b>        |
| Income                  | 1.356                     | 0.432                               | <b>1.788</b>        |
| Service Reconfiguration | 0.324                     | 1.779                               | <b>2.103</b>        |
| <b>Total</b>            | <b>3.530</b>              | <b>3.246</b>                        | <b>6.776</b>        |

- 3.40. It should be noted that individual savings may be subject to specific consultation before they can be implemented. In the event that any savings do not proceed as planned following consultation, any in-year pressure would need to be funded from the corporate contingency budget and the ongoing implications considered as part of the next budget process.
- 3.41. The proposed savings include the generation of additional property income of £0.840m in 2022/23. However, it should be noted that there is a significant in-year (2021/22) budget pressure on the existing property income budget. This suggests a high degree of risk around the delivery of the 2022/23 saving and a possible call on the contingency budget. This will be kept under close review and factored into future MTFS updates.
- 3.42. Updates on the delivery of the 2022/23 budget savings will be provided as part of the 2022/23 budget monitoring process.

- 3.43. The estimated future year implications of 2022/23 savings proposals in 2023/24 and 2024/25 are fully taken into account in the remaining medium-term budget gap in **Table 1**. These will be reviewed ahead of their inclusion in future year budget proposals.

### **Dedicated Schools Grant (DSG) Funding**

- 3.44. An additional £4.7bn is being provided by 2024/25 for the core schools budget in England compared to 2019/20. This is broadly equivalent to a cash increase of over £1,500 per-pupil by 2024/25, restoring schools' per-pupil funding to 2010 levels in real terms. However, this effectively means that there has been no real-terms growth in per-pupil funding in a decade.
- 3.45. The DSG is split into four spending blocks: the Schools Block which funds mainstream schools via the schools funding formula; the Central Schools Services Block to fund services provided by the Council to all mainstream schools; the High Needs Block that funds provision for children and young people with special educational needs and disabilities; and the Early Years Block that funds statutory entitlements to early education and childcare.

### ***Schools Block***

- 3.46. In Islington the funding in the Schools Block is set to increase by £2.775m following an increase in per-pupil funding for primary and secondary schools of 2.86% and 2.59% respectively. However, as allocations at local authority level are on a per-pupil basis, the council would have received a further £1.211m if pupil numbers had been unchanged in 2021/22 (the basis of 2022/23 funding allocations) instead of declining. The increase in funding is sufficient to provide all schools with an increase in funding of at least 2% per pupil against pupil-led factors in the schools funding formula (the maximum allowable by the DfE).
- 3.47. In addition, supplementary funding is being provided for schools in 2022/23 to meet costs in relation to the Health and Social care Levy and wider costs. The provisional allocation for mainstream schools in Islington is £4m. This funding will be transferred into the DSG from 2023/24.

### ***Central Schools Services Block***

- 3.48. Islington will receive a further reduction of £106k (20%) in 2022/23 in the historic duties element of Central Schools Services Block funding for services provided to mainstream schools. This follows a 20% reduction in 2020/21 (£167k) and 2021/22 (£131k), in line with the Department for Education's (DfE) plans to phase out this funding for local authorities by 2026/27. Funding for ongoing duties is reducing by £18k (1.7%) due to declining pupil numbers and a 0.7% reduction in the per-pupil funding rate for local authorities.

### ***High Needs Block***

- 3.49. Funding for the High Needs Block is set to increase by £2.823m (7.5%) but is subject to confirmation by the government in the summer term, in line with previous years. In addition, supplementary high-needs funding is being provided to meet costs in relation to the Health and Social care Levy and wider costs. The provisional allocation for Islington is £1.5m. This funding is expected to be transferred into the DSG in 2022/23, a year earlier than for the Schools Block.

### ***Early Years Block***

- 3.50. Funding in the Early Years Block to fund statutory entitlements to early education and childcare is provisionally set to reduce by £1.555m (7.7%) in 2022/23 but will be adjusted in the summer term in line with the 2022 spring term early years census. Provisional allocations are based on the 2021 spring term headcount which was artificially suppressed due to the pandemic. In the normal course of events, we would expect some recovery in the data compared to 2021, and therefore a positive in-year funding adjustment. However, the Omicron variant is likely to have an adverse impact on recovery, therefore this remains a significant budget risk for the council and early years providers. Specific provisional funding adjustments within the Early Years Block are:
- The hourly funding rate for statutory entitlements to free early education and childcare for 2-year-olds is increasing by 3.2%, but the gain in funding has been offset by the reduced headcount.
  - The Early Years Pupil Premium and The Disability Access Fund are increasing by £0.073m and £0.013m respectively, however this funding is passported directly to providers with eligible children.
- 3.51. In addition to the DSG, supplementary grant funding has been announced for schools in relation to the Health and Social Care Levy and to meet other cost pressures. The council has been notified of an indicative allocation of £4m for primary and secondary schools and £1.5m for high needs, including special schools. This funding is outside of the DSG for 2022/23 but is expected to be rolled into the DSG from 2023/24.

### **Fees and Charges**

- 3.52. Some fees and charges are prescribed by statute and are not within the council's power to vary locally; others are discretionary and set as part of the annual budget setting process.
- 3.53. In setting the fees and charges policy, consideration is given to the current level of inflation in the economy as well as the level of inflation expected to prevail over the forthcoming financial year.
- 3.54. The most widely used measure of inflation is the Consumer Price Index (CPI). Inflation is currently at its highest level in over a decade (December CPI – 5.4%). The spike in inflation is expected to be relatively short lived and forecast to return to the 2% target over the medium term.
- 3.55. Due to the unstable and short-term nature of the current rate of inflation, it is proposed that discretionary fees and charges are uplifted by 2.0% in 2022/23 (the government's official target rate) unless a variation is agreed.
- 3.56. Possible reasons for variation from the standard uplift include separate council policy, cost recovery, price elasticity of demand, benchmarking with alternative providers, and rounding for efficiency of collection.
- 3.57. Based on the policy, the General Fund discretionary fees and charges for 2022/23 are set out at **Appendix C1-4**.
- 3.58. Any increase in fees and charges income that has not already been included separately as part of the budget savings proposals will be fully factored into the overall budget planning

assumptions for the relevant services to cover corresponding inflation in costs incurred by the council.

- 3.59. This policy also applies to HRA fees and charges, except for HRA rents that will be increased in line with the government rent standard (September CPI 3.1% + 1%). HRA fees and charges are considered in the **Section 4** of this report.

### **General Fund Contingency, Reserves and Balances**

- 3.60. A fundamental element of the robustness of the council's annual budget and MTFs is the level of contingency budget, earmarked reserves and General Fund balance, as determined by the Section 151 Officer.
- 3.61. Even prior to the COVID-19 crisis, the 2020/21 budget report had noted the need for the council to strengthen its financial resilience for budget risks over the medium term.
- 3.62. In recent years external auditors have highlighted the comparatively low levels of the council's non-schools reserves and emphasised the importance of maintaining sufficient reserves. Furthermore, the significant expenditure pressures and income shortfalls incurred as a result of COVID-19 have highlighted the underlying level of risk in the council's budget.
- 3.63. The 2022/23 budget includes an ongoing corporate contingency budget of £5m per annum, unchanged from the 2021/22 budget. The contingency budget is available as a last resort for in-year contingency pressures that cannot be funded from compensating underspends elsewhere and subject to approval in line with the council's Financial Regulations. Directorates agree cash limited budget allocations and take responsibility for delivering a balanced budget unless a business case presenting an exceptional circumstance for contingency funding is agreed.
- 3.64. Islington's current General Fund balance (£16.7m, excluding balances held on behalf of schools) equates to just over one week of gross expenditure. It is proposed that any underspend on the General Fund and contingency budget at the end of each financial year is used to increase the General Fund balance (excluding schools balances) from the current level towards a target level of £40m over the medium to longer term. The £40m target level of General Fund balance (excluding schools balances) would be achievable by delivering a balanced budget over the next 5 years and transferring the unused contingency budget to general reserves. It is the view of the Section 151 Officer that this is a reasonable proxy, subject to annual review, for the level of unquantifiable risk in the council's budget, and therefore the target balance needed to deal with economic shocks and insulate the council from potential reactionary cuts to key services in the short term.
- 3.65. The government's financial assistance towards COVID-19 pressures has created complexities for reporting and for reserves comparisons between authorities and financial years. This is due to timing differences between when funding is received and when it is applied against budget pressures. The most significant impact is in respect of Section 31 grant compensation for COVID-19 business rates reliefs, where the grant income was received in 2020/21 (transferred to reserves) but the associated budget pressures will not come through until 2021/22 (drawn down from reserves) due to accounting regulations. This is the reason for the forecast decrease in the Core Funding reserve in 2021/22.
- 3.66. The estimated level of General Fund, reflecting current known movements, over the three-year MTFs period is shown in **Table 6** followed by a brief description of each reserve. This



reflects known reserves movements and assumes that the estimated budget gap for 2023/24 and 2024/25 will be fully closed without drawing down on reserves.

- 3.67. The 2021/22 budget established a £4m per annum recurrent transfer to earmarked reserves as part of the council's efforts to strengthen financial resilience for hardening and emerging budget risks. It is prudently assumed that this £4m annual budgeted transfer to earmarked reserves will be offset fully by drawdowns against reserves commitments. However, the medium-term strategy will be to fund pressures within the annual base budget where possible, in which case the budgeted transfer to reserves may help towards further strengthening the overall reserves position.
- 3.68. The proposed 2022/23 budget includes a further one-off £4m transfer to earmarked reserves to provide additional financial resilience for the additional potential budgetary impact of the COVID-19 pandemic that is not reflected in base budgets.
- 3.69. It is expected that additional movements to/from reserves will be brought forward for agreement once there is greater clarity on their timing and amount. This includes reserves movements related to the finalisation of the 2021/22 financial outturn after the end of the current financial year.

**Table 6 – Estimated General Fund Reserves**

|                             | <b>31.3.21<br/>Actual<br/>£m</b> | <b>31.3.22<br/>Estimate<br/>£m</b> | <b>31.3.23<br/>Estimate<br/>£m</b> | <b>31.3.24<br/>Estimate<br/>£m</b> | <b>31.3.25<br/>Estimate<br/>£m</b> |
|-----------------------------|----------------------------------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|
| <b>Earmarked Reserves</b>   |                                  |                                    |                                    |                                    |                                    |
| BSF PFI                     | 5.762                            | 6.405                              | 6.935                              | 7.439                              | 7.929                              |
| Budget Risk and Insurance   | 25.425                           | 27.697                             | 23.697                             | 23.697                             | 23.697                             |
| Budget Strategy             | 21.111                           | 21.111                             | 21.111                             | 21.111                             | 21.111                             |
| Business Continuity         | 10.000                           | 10.000                             | 10.000                             | 10.000                             | 10.000                             |
| Care Experience             | 16.000                           | 16.000                             | 20.000                             | 20.000                             | 20.000                             |
| Cemeteries                  | 2.107                            | 2.107                              | 2.107                              | 2.107                              | 2.107                              |
| CIL                         | 8.434                            | 8.434                              | 8.434                              | 8.434                              | 8.434                              |
| Core Funding                | 41.465                           | 39.677                             | 16.916                             | 15.337                             | 15.337                             |
| COVID-19                    | 0.000                            | 0.000                              | 4.000                              | 4.000                              | 4.000                              |
| Levies                      | 0.000                            | 2.726                              | 2.844                              | 2.844                              | 2.844                              |
| Net Zero Carbon             | 2.548                            | 2.548                              | 2.548                              | 2.548                              | 2.548                              |
| Public Health               | 1.353                            | 1.353                              | 1.353                              | 1.353                              | 1.353                              |
| Social Care                 | 5.985                            | 5.985                              | 5.985                              | 5.985                              | 5.985                              |
| Street Markets              | 0.260                            | 0.260                              | 0.260                              | 0.260                              | 0.260                              |
| <b>Total</b>                | <b>140.450</b>                   | <b>144.303</b>                     | <b>126.190</b>                     | <b>125.115</b>                     | <b>125.605</b>                     |
|                             |                                  |                                    |                                    |                                    |                                    |
| <b>General Fund Balance</b> |                                  |                                    |                                    |                                    |                                    |
| Non Schools                 | 16.664                           | 16.664                             | 16.664                             | 16.664                             | 16.664                             |
| Schools*                    | 10.109                           | 5.081                              | 5.000                              | 1.000                              | 1.000                              |
| <b>Total</b>                | <b>26.773</b>                    | <b>21.745</b>                      | <b>21.664</b>                      | <b>17.664</b>                      | <b>17.664</b>                      |

- Building Schools for the Future (BSF) PFI Smoothing reserve – The annual costs of PFI schemes fluctuate over the lifecycle of the schemes. This reserve helps to smooth the budgetary impact of PFI costs across financial years.

- Budget Risk and Insurance reserve – to mitigate budget and insurance risks, the impact of delayed savings delivery and other timing differences and one-off expenditure commitments that span more than one financial year.
- Budget Strategy reserve – This reserve provides one-off funding linked to the delivery of the MTFS (e.g., transformation projects, revenue costs of capital projects, redundancy costs). It supplements the £1.5m annual budget for corporate transformation projects.
- Business Continuity - mitigates the risk of disruption to key council services and systems, including cyber security risks.
- Care Experience – provides for the potential direct and indirect costs of the non-recent child abuse (NRCA) support payment scheme. There is an additional £4m transfer to the reserve in 2022/23 in order to provide for the potential costs of the NRCA support scheme.
- Cemeteries reserve – The council operates a shared cemeteries service with the London Borough of Camden, and any surplus at the end of each financial year is carried forward through this reserve.
- Community Infrastructure Levy (CIL) reserve – balance of CIL funding available for infrastructure investment in future financial years.
- Core Funding – This reserve comprises the one-off financial gain from the former London Business Rates Pool and other one-off Collection Fund surpluses, and up-front government grant received in 2020/21 to fund 2020/21 Collection Fund losses that will come out of future year budgets (due to Collection Fund accounting timing differences). The remaining balance has been set aside for risks around taxation income and government funding streams. The individual forecast movements to/(from) the Core Funding reserve are detailed in **Table 7**.

**Table 7 – Movements to/(from) Core Funding Reserve**

|                             | <b>2021/22<br/>£m</b> | <b>2022/23<br/>£m</b> | <b>2023/24<br/>£m</b> |
|-----------------------------|-----------------------|-----------------------|-----------------------|
| <b>Council Tax</b>          |                       |                       |                       |
| 2019/20 Surplus/(Deficit)   | 0.589                 | 0.000                 | 0.000                 |
| 2020/21 (Deficit) Spreading | (0.478)               | (0.478)               | (0.478)               |
| 2021/22 Surplus             | 0.000                 | 1.566                 | 0.000                 |
| <b>Business Rates</b>       |                       |                       |                       |
| 2019/20 Surplus/(Deficit)   | 1.192                 | 0.000                 | 0.000                 |
| 2020/21 Surplus/(Deficit)   | (22.838)              | 3.199                 | 0.000                 |
| 2020/21 (Deficit) Spreading | (1.101)               | (1.101)               | (1.101)               |
| 2021/22 Surplus/(Deficit)   | 0.000                 | (25.947)              | 0.000                 |
| Unbudgeted Section 31 Grant | 20.848                | 0.000                 | 0.000                 |
| <b>Total Movements</b>      | <b>(1.788)</b>        | <b>(22.761)</b>       | <b>(1.579)</b>        |

- COVID-19 – The proposed 2022/23 budget includes a £4m one-off transfer to earmarked reserves to provide additional financial resilience against the ongoing impact of COVID-19 on the council's budget.

- Levies – mitigates future unexpected increases in levies (e.g., due to fluctuation in borough waste tonnages that are used to calculate the NLWA levy).
- Net Zero Carbon – supports the delivery of the council's Net Zero Carbon programme.
- Public Health – balance of ring-fenced public health grant funding carried forward to spend in future financial years.
- Social Care – mitigates significant uncertainty in social care demographic growth estimates, over and above the general, corporate demographic funding pot.
- Street Markets – The council operates three street markets at Chapel Market, Whitecross Street and Exmouth Market. Under laws governing the operation of these markets, any surplus at the end of each financial year is carried forward through this reserve for the future costs of operating the markets.

#### **4. Housing Revenue Account**

- 4.1. The HRA is a ring-fenced account covering the cost of managing and maintaining council-owned housing stock, servicing both existing debt taken on as part of self-financing and new debt taken on to support the delivery of the new build programme, the funding of which comes primarily from rents and tenants' and leaseholders' service charges.
- 4.2. The HRA has a 30-year business plan that is currently balanced over the short to medium term. Work is currently underway to update the business plan to reflect the impact of the latest rent setting proposals as well as other agreed increases in expenditure not previously anticipated (e.g., the increase in employer national insurance). The outcome of this will determine the longer-term outlook and provide a basis for considering options for balancing the HRA in the longer term (if required) and meeting future investment need in relation to fire safety & net zero carbon priorities.
- 4.3. The proposed HRA budget for 2022/23 and latest estimates for the medium term, including HRA reserves estimates, is set out at **Appendix D1**. The movement between the approved 2021/22 budget and the proposed 2022/23 budget is summarised in **Table 8**.

**Table 8 – Summary of HRA Budget Changes 2021/22 to 2022/23**

|   | <b>£m</b>     |
|---|---------------|
| <b>Expenditure</b>  |               |
| Staffing (estimated pay awards 2021/22 + 2022/23 & employers NI increase)                                     | 3.5           |
| Net Reduction arising from PFI2 stock returning to council management   | (22.2)        |
| Reduction in the temporary use of revenue contributions to fund capital expenditure                           | (26.2)        |
| Increase in borrowing costs to fund capital expenditure   | 3.1           |
| Increase in the cost of communal gas and electricity  | 2.2           |
| Increase in the use of Temporary Accommodation arising primarily in response to domestic violence & disrepair | 1.0           |
| Budget growth   | 0.7           |
| Contractual inflationary increases  | 1.2           |
| Increase in tenants building Insurance costs  | 0.9           |
| Increase in depreciation (contribution to the Major Repairs Reserve)  | 0.7           |
| Increase in contingency to cover one-off pressures  | 1.7           |
| Increase in the contribution to HRA reserves  | 8.6           |
| <b>Total Expenditure Reduction</b>  | <b>(24.8)</b> |
| <b>Income</b>   |               |
| Rent  | (7.9)         |
| Loss of PFI2 credits arising from PFI2 stock returning to council management                                  | 16.7          |
| Tenant service charges  | (1.0)         |
| Heating charges (tenants & leaseholders)  | (0.6)         |
| Other income net reductions   | 0.4           |
| Leaseholder service charges – re-aligning the budget to more closely align with actual costs & recovery       | (1.4)         |
| Reduction in contribution from HRA reserves   | 18.6          |
| <b>Total Income Reduction</b>   | <b>24.8</b>   |

**Rental Income and Other HRA Fees and Charges**

- 4.4. The Welfare Reform and Work Act 2016 required local authorities to reduce the rents, in respect of all properties (excluding PFI managed properties) held in the HRA, by 1% each year for 4 consecutive years between 2016/17 and 2019/20.
- 4.5. In February 2019 the government issued a policy statement on rents for social housing effective from April 2020.
- 4.6. Compliance with this policy is effectively mandatory, as the government has included local authority social housing within the remit of the Social Housing Regulator (previously the Regulator's remit was limited to private registered providers of social housing i.e. housing associations). The Regulator is required by direction from the DLUHC to have regard to the government's policy statement referred to above. As such, the Regulator's rent standard, first published in May 2019 and updated in December 2020, reflects the government's policy statement.

- 4.7. The 2022/23 rents set out below have been calculated in accordance with the rent standard and the government's 'limit on annual rent increases 2022/23 (from April 2022)' issued in November 2021.
- 4.8. The Social Housing Regulator has advised that all properties that are currently or that were previously managed under a private finance initiative (PFI) arrangement are exempt from the rent standard.
- 4.9. The calculation of leaseholder service charges has been revised from a bedroom weighting method to a points-based method, as previously agreed by the Executive and detailed at **Appendix D3**.

### **Islington Council Managed General Needs Non-New Build Properties**

- 4.10. **Table 9** sets out the average rent in 2022/23 for existing tenancies. The maximum 2022/23 permitted rent is the prior year 2021/22 actual rent plus CPI 3.1% (September 2021) plus 1%.
- 4.11. However, if the maximum rent exceeds the lower of the 2022/23 national rent cap or the 2022/23 national target rent then 2022/23 rent will be the higher of A or B:  
 A. The lower of 2022/23 national target rent or the 2022/23 national rent cap, or  
 B. 2021/22 actual rent plus CPI 3.1% (September 2021) plus 0%.
- 4.12. All the Islington Council general needs properties will be subject to the maximum rent increase in 2022/23 of 4.1% (i.e., CPI 3.1% at September 2021 + 1%) as their maximum rent in 2022/23 does not exceed the lower of the 2022/23 national target rent or the 2022/23 national rent cap.
- 4.13. 1% (217) of the Islington Council general needs properties have a national target rent greater than the national rent cap.

**Table 9 – Existing Tenancies Average Weekly Rent 2022/23**

|                             |         |
|-----------------------------|---------|
| Average Weekly Rent 2021/22 | £112.91 |
| Increase (£)                | £4.63   |
| Increase (%)                | 4.10%   |
| Average Weekly Rent 2022/23 | £117.54 |

- 4.14. General needs properties will be re-let at the lower of the 2022/23 national rent cap or the 2022/23 national target rent. As 99% of Islington Council general needs properties have a national target rent below the national rent cap, it is likely that re-lets will be at national target rent.
- 4.15. In accordance with the rent standard, 2022/23 national target rents will reflect an increase of CPI 3.1% (September 2021) plus 1% and the 2022/23 national rent caps will reflect an increase of CPI 3.1% (September 2021) plus 1.5%.
- 4.16. **Table 10** sets out the likely average rent in 2022/23 for re-let properties.

**Table 10 – Re-Let Properties Likely Average Weekly Rent 2022/23**

|   |         |
|---|---------|
| Average Weekly National Target Rent 2021/22 | £118.27 |
| Increase (£)                                | £4.85   |
| Increase (%)                                | 4.10%   |
| Average Weekly National Target Rent 2022/23 | £123.12 |

### **Islington Council Managed General Needs New Build Properties**

- 4.17. 2022/23 new build existing tenants' rents will reflect an increase of CPI 3.1% (September 2021) plus 1%.
- 4.18. 2022/23 re-let and first-let new build rents will, like the LBI managed general needs stock, be based on the lower of the 2022/23 national rent cap or the 2022/23 national target rent.
- 4.19. 50% of existing new build national target rents are greater than the national rent cap, hence these re-let rents will be set at the national rent cap.

### **Islington Council Managed Property Acquisitions used for Temporary Accommodation (including reception centres and general needs properties)**

- 4.20. Existing tenancies and re-let rents in 2022/23 will be set on the same basis as general needs properties referred to above, with the exception that for reception centres the plus 5% flexibility has been applied to the national target rent calculation.
- 4.21. LBI Managed Property Acquisitions - purchased using right to buy 141 receipts.
- 4.22. Existing Tenancies – 2022/23 rents will be set at the lower of:
  - A. The 2021/22 rent plus CPI 3.1% (September 2021) plus 1%, or
  - B. The lower of the relevant 2022/23 local housing allowance rate or 80% of the relevant market rent.
- 4.23. Re-lets and first-lets in 2022/23 will be set at the lower of:
  - A. The relevant 2022/23 local housing allowance rate, or
  - B. 80% of the relevant market rent

### **Islington Council Managed Property Acquisitions (purchased Using GLA grant)**

- 4.24. Existing Tenancies – 2022/23 rents will be set at the lower of:
  - A. The 2021/22 rent plus CPI 3.1% (September 2021) plus 1%, or
  - B. The relevant 2022/23 local housing allowance rate.
- 4.25. Re-lets and first-lets in 2022/23 will be set at the relevant 2022/23 local housing allowance rate.

### **Properties Managed and Properties Previously (Until April 2022) Managed under a Private Finance Initiative (PFI) Contract by Partners for Islington**

- 4.26. The existing tenants' 2022/23 rents will reflect an increase of CPI 3.1% (September 2021) plus 1% in respect of; properties that continue to be managed by Partners for Islington under the PFI (1) contract and properties returning to council management from 4th April 2022, that were previously managed by Partners for Islington under the PFI (2) contract.
- 4.27. Re-Lets will be based on the outgoing tenants' rent as set out above.
- 4.28. **Table 11** sets out the average rent in 2022/23 for existing tenancies & likely average rent in 2022/23 for re-lets for current PFI (1) properties and ex PFI (2) properties.

**Table 11 – Existing Tenancies + Re-Lets – PFI (1) current contract and PFI (2) returning to council management - Average Weekly Rent 2022/23**

|                             |         |
|-----------------------------|---------|
| Average Weekly Rent 2021/22 | £159.47 |
| Increase (£)                | £6.54   |
| Increase (%)                | 4.10%   |
| Average Weekly Rent 2022/23 | £166.01 |

### **Other HRA Fees and Charges**

4.29. All other HRA fees and charges are set out at **Appendix D2**. These will increase by 2% in line with the council's policy set out in this report, except for the following charges:

- Caretaking/Cleaning and Estate Services

Caretaking and Estate Service Charges will increase by 79p per week this is primarily due to the significant forecast increase in energy prices affecting the charge in respect of communal electricity.

- Digital TV Maintenance

Charges have increased by 1p per week in 2022/23 to reflect the cost of the provision of this service.

- Heating and Hot Water

Gas prices are forecast to increase by around 55% in 2022/23. The Tenants' gas reserve has been used to absorb some of this increase and limit the increase in charges to tenants to +25%.

- Concierge Service Charges

These have increased by 4.54% to reflect the phasing in of the recovery of the full costs related to the provision of this service.

- Estate Parking for Non HRA Rent and Service Charge payers

Charges in respect of facilities used for vehicles i.e., Garages, parking spaces and car cages have increased by 10% in 2022/23 for non-HRA residents.

- Diesel Surcharge (Off Street)

This charge has increased by £3 per year or 2.4% in 2022/23 to align with the on-street parking surcharge.

## **5. Capital Programme**

5.1. The council has a Corporate Asset Strategy that aims to take a strategic, long-term approach to managing and enhancing our community asset base.

5.2. The proposed capital programme continues the work over the past two years to implement this strategy by:

- Providing significant investment to support key council priorities on affordable housing and net zero carbon.
- Expanding the non-housing capital programme to support much-needed modernisation and enhancement of a wide range of community assets, including an additional one-off £10m capital investment.

- Forecasting indicative capital investment needs over a longer time frame.
- 5.3. The proposed 2022/23 to 2024/25 capital programme as well as indicative estimates for 2025/26 to 2031/32 are summarised by council priority in **Table 12** and detailed at **Appendix E1**. This is estimated to deliver up to £1.7bn of capital investment in the borough over the next 10 years.
- 5.4. The capital expenditure profiles by financial year are based on latest best estimates by budget holders and project managers. In recent years, however, there has been significant in-year reprofiling of the capital programme to later financial years. This has been due to various internal and external factors such as significant uncertainty around timescales at the point of adding schemes to the programme, capacity constraints, COVID-19 restrictions and the global supply chain.
- 5.5. Despite plans to increase project manager capacity going forward, a central reprofiling assumption of 25% has been made against the total capital programme. The purpose of this is to highlight the expectation of further reprofiling in future updates of the capital programme.

**Table 12 – Capital Programme 2022/23 to 2024/25 and Indicative Programme 2025/26 to 2031/32**

|                                    | <b>2022/23</b> | <b>2023/24</b> | <b>2024/25</b> | <b>2022/23<br/>to<br/>2024/25<br/>Total</b> | <b>2025/26 to<br/>2031/32<br/>(Indicative)</b> | <b>Total 10<br/>Year<br/>Programme</b> |
|------------------------------------|----------------|----------------|----------------|---|--|--|
|                                    | <b>£m</b>      | <b>£m</b>      | <b>£m</b>      | <b>£m</b>                                   | <b>£m</b>                                      | <b>£m</b>                              |
| Corporate Landlord Service         | 19.521         | 16.523         | 17.747         | 56.091                                      | 40.365   | <b>96.456</b>                          |
| Environment                        | 25.481         | 27.147         | 20.804         | 73.432                                      | 89.500   | <b>162.932</b>                         |
| Homes & Neighbourhoods             | 168.607        | 168.632        | 147.049        | 484.288                                     | 988.032  | <b>1,472.320</b>                       |
| <b>Total Capital Programme</b>     | <b>213.609</b> | <b>212.302</b> | <b>185.600</b> | <b>613.811</b>                              | <b>1,117.897</b>                               | <b>1,729.408</b>                       |
| 25% Central Reprofiling Adjustment | (53.402)       | (53.075)       | (46.400)       | (153.453)                                   | (279.474)                                      | <b>(432.352)</b>                       |
| <b>Adjusted Capital Programme</b>  | <b>160.207</b> | <b>159.227</b> | <b>139.200</b> | <b>460.358</b>                              | <b>838.423</b>                                 | <b>1,297.056</b>                       |

- 5.6. The capital programme over the next three years will support the council's objectives by providing funding for the following projects:

**Decent and Genuinely Affordable Homes for All:**

- Housing New Build Programme – the continuation of our major programme of investment in new social housing in Islington.
- Housing major works and improvements programme - ongoing investment in council homes and estates, including cyclical improvements, mechanical and electrical works, fire safety and energy efficiency improvements.



- New investment to support the redevelopment of Finsbury Leisure Centre, including over 100 new genuinely affordable homes.

### **Children and Young People:**

- Improving our early years, schools, youth and play provision.

### **A Safer Borough for All:**

- Upgrade to the council's core CCTV network and investment in CCTV-enabled vehicles to increase coverage for hot spots.

### **A Greener and Cleaner Islington:**

- Continuing investment to support the council's Net Zero Carbon strategy.
- Vehicle electrification charging infrastructure and replacement of vehicles.
- People Friendly Streets and School Streets – borough-wide programmes to reduce car trips and improve neighbourhoods for walking, cycling and living.
- Investment in the borough's parks, open spaces and leisure facilities.

5.7. In addition to these programmes, the capital programme will support the effective management of Islington's infrastructure and estate. This includes:

- Structural maintenance of the highways infrastructure including carriageways, footways and drainage.
- Compliance and modernisation improvements to deal with urgent property compliance issues.
- Use of Community Infrastructure Levy and S106 payments to make targeted investment across the borough spending decisions led and managed by local ward councillors.

5.8. The capital programme also includes a new £10m investment pot to support key community priorities across the borough. Officers will work with members to agree how the pot is used, which may include:

- Tackling urgent maintenance and improvement backlogs;
- Providing top-up funding to ensure that in-flight schemes are completed or accelerated.
- Delivering new schemes.

5.9. Further work will be required to allocate this additional capital investment pot and plan delivery timescales. Once this work has been completed, the proposed revised capital programme will be set out in a report to Full Council during 2022/23. In the meantime, the £10m additional capital budget is currently profiled equally between 2023/24 and 2024/25 given the lead time on delivering new schemes on top of the existing capital programme.

5.10. The estimated funding of the 2022/23 to 2024/25 capital programme is summarised in **Table 13**. At the end of each financial year, the Section 151 Officer will apply resources to finance capital expenditure in the most cost-effective way for the council.

**Table 13 – Estimated Funding of Capital Programme 2022/23 to 2024/25**

|                                | <b>2022/23<br/>£m</b> | <b>2023/24<br/>£m</b> | <b>2024/25<br/>£m</b> | <b>Total<br/>£m</b> |
|--------------------------------|-----------------------|-----------------------|-----------------------|---------------------|
| <b>General Fund</b>            |                       |                       |                       |                     |
| Capital Grant                  | 3.701                 | 5.400                 | 5.650                 | <b>14.751</b>       |
| S106/CIL                       | 6.919                 | 7.094                 | 0.104                 | <b>14.117</b>       |
| Capital Receipts               | 16.139                | 15.558                | 0.573                 | <b>32.270</b>       |
| General Fund Borrowing         | 40.475                | 49.725                | 68.113                | <b>158.313</b>      |
| <b>Total General Fund</b>      | <b>67.234</b>         | <b>77.777</b>         | <b>74.440</b>         | <b>219.451</b>      |
| <b>HRA</b>                     |                       |                       |                       |                     |
| Capital Grant                  | 5.725                 | 0.000                 | 0.000                 | <b>5.725</b>        |
| S106/CIL                       | 3.143                 | 0.500                 | 0.500                 | <b>4.143</b>        |
| Capital Receipts               | 39.681                | 61.003                | 42.323                | <b>143.007</b>      |
| Revenue Contributions          | 5.694                 | 8.669                 | 16.506                | <b>30.869</b>       |
| HRA Reserves                   | 32.357                | 33.159                | 28.232                | <b>93.748</b>       |
| HRA Borrowing                  | 59.776                | 31.194                | 23.599                | <b>114.569</b>      |
| <b>Total HRA</b>               | <b>146.376</b>        | <b>134.525</b>        | <b>111.160</b>        | <b>392.061</b>      |
| <b>Total Capital Programme</b> | <b>213.610</b>        | <b>212.302</b>        | <b>185.600</b>        | <b>611.512</b>      |

5.11. It should be noted that the projected capital receipts financing is intrinsically linked with the housing new build capital programme, and that there is uncertainty around the timing and value of these receipts. To mitigate these risks the council maintains a regular review of the property market and has been prudent in its financial assumptions. Timing delays can largely be managed through the use of HRA reserves. In the event of a decrease in projected capital receipts, the new build programme would need to be re-assessed in line with the overall available funding.

5.12. The Capital Strategy that underpins the capital programme, and Treasury Management Strategy, MRP Statement and Investment Strategy are available at **Appendix E2-5**.

## **6. Council Tax and Retained Business Rates**

### **Council Tax Forecast 2021/22**

6.1. The latest 2021/22 Collection Fund forecast for council tax, which is subject to change between now and the end of the financial year, is a £0.795m surplus. This comprises a £1.839m COVID-19 related deficit brought forward from 2020/21 and a £2.634m in-year surplus.

6.2. The forecast in-year Collection Fund surplus of £2.634m is due to:

- Lower than budgeted council tax support costs of £5.327m – This is due to council tax support caseload stabilising and not increasing to the extent estimated at 2021/22 budget setting.

Partially offset by:

- An adverse net movement of £2.551m in the wider taxbase position – largely attributable to increased student exemptions and single person discounts.
- £0.142m payment to the council's General Fund and the GLA in relation to the forecast Collection Fund surplus as part of 2021/22 budget setting in January 2021.

- 6.3. The distribution of the forecast Collection Fund surplus in the 2022/23 budget is outlined in **Table 14**. This is based on prescribed accounting requirements, including the three-year phasing of 2020/21 Exceptional (COVID-19) Deficits.

**Table 14 - Distribution of Forecast 2021/22 Council Tax (Surplus)/Deficit**

|  | <b>Islington<br/>£m</b> | <b>GLA<br/>£m</b> | <b>Total<br/>£m</b> |
|--|-------------------------|-------------------|---------------------|
| Total Forecast Surplus   |                         |                   | 0.795               |
| Add back 1/3 2020/21 Exceptional Balance (2023/24 element due to three-year phasing) |                         |                   | 0.608               |
| <b>Total Surplus to be distributed in 2022/23</b>                                    |                         |                   | <b>1.403</b>        |
| 1/3 of 2020/21 Exceptional Balance (2022/23 element due to three-year phasing)       | 0.478                   | 0.130             | 0.608               |
| Remainder of Surplus   | 1.566                   | 0.446             | 2.012               |
| <b>Total Surplus in 2022/23 Budget</b>   | <b>1.088</b>            | <b>0.316</b>      | <b>1.403</b>        |

#### **Council tax Base 2022/23**

- 6.4. On 31 January 2022, the Audit Committee agreed a Band D equivalent council taxbase for 2022/23 of 80,177.9 properties for the council's whole area and 44.3 properties for the Lloyd Square Garden Committee area.
- 6.5. There is a headline council taxbase increase of 3.14% in 2022/23, recouping the majority of the 4.29% reduction experienced in 2021/22. The reasons for this increase are two-fold. Council tax support caseload has stabilised since the sharp increase at the start of the pandemic and has not increased to the extent estimated at 2021/22 budget setting. Also, council tax collection has marginally improved since the last financial year, albeit still below the pre-pandemic level.
- 6.6. The budgeted collection rate for 2022/23 is estimated at 97% (an increase of 0.5% from the 2021/22 rate of 96.5%). This is the percentage of 2022/23 council tax bills that the council is budgeting to receive over time, including in subsequent financial years. The 97% estimate is a judgment based on an incremental improvement in collection in the current financial year compared to 2020/21. However, council tax collection remains below the pre-pandemic level when the budgeted collection rate was 98%.
- 6.7. However, underlying this position, there is a 0.59% decrease in the council taxbase before changes in council tax support and collection losses are taken into account. This is predominantly due to a significant increase in student exemptions (with many students returning to student accommodation in the 2021/22 academic year) and growth in single person discounts over the past year. This will be monitored closely as part of 2022/23 budget monitoring in order to inform future year taxbase projections in the council's MTFS.

## Level of Council Tax 2022/23

- 6.8. Sections 31A and 31B of the amended Local Government Finance Act (LGFA) 1992 require the council to calculate its gross expenditure, gross income and council tax requirement. For these purposes, HRA expenditure and income is included even though it has no effect on council tax, and the gross expenditure figure includes special expenses relating to part only of the of the council's area. The detailed estimates to split the council's net budget between gross expenditure and gross income are currently being finalised and will be set out in **Table 15** in the final version of this report to Full Council on 3 March 2022. This exercise has no impact on the substantive budget proposals.

**Table 15 – Section 31A (Amended LGFA 1992) Calculation 2022/23**

|  | £                      |
|--|------------------------|
| Aggregate of the amounts which the council estimates for items set out in Section 31A (2) (a) to (f) of the LGFA 1992 <b>(A)</b>   | TBC                    |
| Aggregate of the amounts which the council estimates for items set out in Section 31A (3) (a) to (d) of the LGFA 1992 <b>(B)</b>   | TBC                    |
| Calculation of the council tax requirement under Section 31A (4), being the amount by which the sum aggregated at <b>(A)</b> above exceeds aggregate at <b>(B)</b> above | <b>£105,425,628.21</b> |

- 6.9. The calculation of the relevant (average) 2022/23 council tax per Band D property is set out in **Table 16**.

**Table 16 – Section 31B (amended LGFA) Calculation 2022/23**

|  |                  |
|--|------------------|
| Council Tax Requirement                          | £105,425,628.21  |
| Council Tax Base                                 | 80,177.9         |
| <b>2022/23 Relevant Basic Band D Council Tax</b> | <b>£1,314.65</b> |
| <b>Increase Compared to 2021/22</b>              | <b>2.99%</b>     |

- 6.10. Each billing authority and precepting authority must determine whether its relevant basic amount of council tax for a financial year is excessive. If an authority's relevant basic amount of council tax is excessive, a referendum must be held in relation to that amount. For 2022/23, the relevant basic amount of council tax for Islington would be excessive if it is 3% or more greater than 2021/22 (comprising 1% specifically for expenditure on adult social care, and 2% for all expenditure). Therefore, the proposed 2.99% increase in the relevant basic amount of Band D Islington council tax, which comprises 1% specifically for expenditure on adult social care and 1.99% for all expenditure, is not excessive.
- 6.11. Additional council tax calculations are required where special items relate to part only of the council's area (for Islington, the Lloyd Square Garden Committee special expense). The calculation of the 2022/23 basic amount of council tax for dwellings in Islington to which no special item relates (i.e., outside the Lloyd Square Garden Committee area) is shown in **Table 17**.

**Table 17 – 2022/23 Basic Council Tax for All Other Parts of the Council's Area**

|  |                        |
|--|------------------------|
| Council Tax Requirement (Including special expenses)                             | <b>£105,425,628.21</b> |
| Less Lloyd Square Garden Committee special expense                               | (19,868.21)            |
| <b>Council Tax Requirement (Excluding special expense)</b>                       | <b>£105,405,760.00</b> |
| Council Tax Base   | 80,177.9               |
| <b>2022/23 Basic and D Council Tax for All Other Parts of the Council's Area</b> | <b>£1,314.65</b>       |
| <b>Increase Compared to 2021/22</b>  | <b>2.99%</b>           |

- 6.12. The Lloyd Square Garden Committee has agreed a special expense of £19,868.21 for 2022/23 (an increase of 5% since 2021/22). When this is divided by the Lloyd Square Garden Committee Band D tax base (44.2), it gives a charge of £448.49 per Band D property for 2022/23. This will be charged to Lloyd Square Garden area dwellings in addition to the basic Islington Band D council tax of £1,314.65 for all other parts of the council's area.
- 6.13. The 2022/23 basic amount of Islington council tax for each valuation band for the Lloyd Square area (**Table 18**) and all other parts of the council's area (**Table 19**) are shown below. These amounts are calculated by multiplying the Band D council tax amount per property by the proportions set out in Section 5(1) of the LGFA 1992.

**Table 18 – Lloyd Square Garden Area Basic Islington Council Tax 2022/23**

| <b>Valuation Band</b> | <b>Lloyd Square Garden Area 2021/22 (£)</b> | <b>Lloyd Square Garden Area 2022/23 (£)</b> | <b>Lloyd Square Garden Area Increase (£)</b> |
|-----------------------|---|---|--|
| A                     | 285.40                                      | 298.99                                      | 13.59  |
| B                     | 332.97                                      | 348.83                                      | 15.86  |
| C                     | 380.53                                      | 398.66                                      | 18.13  |
| <b>D</b>              | <b>428.10</b>                               | <b>448.49</b>                               | <b>20.39</b>                                 |
| E                     | 523.23                                      | 548.15                                      | 24.92  |
| F                     | 618.37                                      | 647.82                                      | 29.45  |
| G                     | 713.50                                      | 747.48                                      | 33.98  |
| H                     | 856.20                                      | 896.98                                      | 40.78  |

**Table 19 – All Other Parts of the Council's Area Basic Islington Council Tax 2022/23**

| Valuation Band | All Other Parts of the Council's Area 2021/22 (£) | All Other Parts of the Council's Area 2022/23 (£) | All Other Parts of the Council's Area Increase (£) |
|----------------|---|---|--|
| A              | £850.99   | 876.43  | £25.44   |
| B              | £992.82   | 1,022.51  | £29.69   |
| C              | £1,134.65   | 1,168.58  | £33.93   |
| <b>D</b>       | <b>£1,276.48</b>                                  | <b>1,314.65</b>                                   | <b>£38.17</b>                                      |
| E              | £1,560.14   | 1,606.79  | £46.65   |
| F              | £1,843.80   | 1,898.94  | £55.14   |
| G              | £2,127.47   | 2,191.08  | £63.61   |
| H              | £2,552.96   | 2,629.30  | £76.34   |

6.14. The proposed 2022/23 GLA precept for each valuation band is shown in **Table 20**.

**Table 20 – GLA Precept**

| Valuation Band | GLA Precept 2021/22 (£) | GLA Precept 2022/23 (£) | Increase (£)  |
|----------------|-------------------------|-------------------------|---------------|
| A              | £242.44                 | £263.73                 | £21.29        |
| B              | £282.85                 | £307.68                 | £24.83        |
| C              | £323.25                 | £351.64                 | £28.39        |
| <b>D</b>       | <b>£363.66</b>          | <b>£395.59</b>          | <b>£31.93</b> |
| E              | £444.47                 | £483.50                 | £39.03        |
| F              | £525.29                 | £571.41                 | £46.12        |
| G              | £606.10                 | £659.32                 | £53.22        |
| H              | £727.32                 | £791.18                 | £63.86        |

6.15. The 2022/23 total amount of Islington council tax (including GLA precept) for each valuation band for the Lloyd Square area (**Table 21**) and all other parts of the council's area (**Table 22**).

**Table 21 – Total Islington and GLA Council Tax for the Lloyd Square Garden Area 2022/23**

| <b>Valuation Band</b> | <b>Lloyd Square Garden Area 2021/22 (£)</b> | <b>Lloyd Square Garden Area 2022/23 (£)</b> | <b>Lloyd Square Garden Area Increase (£)</b> |
|-----------------------|---|---|--|
| A                     | 1,378.83                                    | 1,439.15                                    | £60.32                                       |
| B                     | 1,608.64                                    | 1,679.02                                    | £70.38                                       |
| C                     | 1,838.43                                    | 1,918.88                                    | £80.45                                       |
| <b>D</b>              | <b>2,068.24</b>                             | <b>2,158.73</b>                             | <b>£90.49</b>                                |
| E                     | 2,527.84                                    | 2,638.44                                    | £110.60                                      |
| F                     | 2,987.46                                    | 3,118.17                                    | £130.71                                      |
| G                     | 3,447.07                                    | 3,597.88                                    | £150.81                                      |
| H                     | 4,136.48                                    | 4,317.46                                    | £180.98                                      |

**Table 22 – Total Islington and GLA Council Tax for All Other Parts of the Council's Area 2022/23**

| <b>Valuation Band</b> | <b>All Other Parts of the Council's Area 2021/22 (£)</b> | <b>All Other Parts of the Council's Area 2022/23 (£)</b> | <b>All Other Parts of the Council's Area Increase (£)</b> |
|-----------------------|--|--|---|
| A                     | £1,093.43  | 1,140.16   | £46.73  |
| B                     | £1,275.67  | 1,330.19   | £54.52  |
| C                     | £1,457.90  | 1,520.22   | £62.32  |
| <b>D</b>              | <b>£1,640.14</b>   | <b>1,710.24</b>  | <b>£70.10</b>   |
| E                     | £2,004.61  | 2,090.29   | £85.68  |
| F                     | £2,369.09  | 2,470.35   | £101.26   |
| G                     | £2,733.57  | 2,850.40   | £116.83   |
| H                     | £3,280.28  | 3,420.48   | £140.20   |

### **Retained Business Rates**

- 6.16. Under the existing business rates retention system, the council retains 30% of business rates income in the borough and receives Section 31 grant to compensate for the impact of government policy (e.g., new reliefs, freezing of business rates) on its retained business rates income.
- 6.17. The council's NNDR1 return (detailed business rates estimate) for 2022/23 has now been submitted following the 31 January 2022 statutory submission deadline. The financial implications of this return are fully incorporated in the proposed 2022/23 budget. **Table 23** summarise the NNDR1 return estimate in terms of the council's total retained business rates income.

**Table 23 – Estimated Business Rates Income 2022/23**

|   | <b>£</b>           |
|---|--------------------|
| Gross Business Rates  | 357,513,839        |
| Small Business Rate Relief (net of additional yield from small business supplement) | (209,278)          |
| Charitable Occupation   | (25,966,295)       |
| Unoccupied Property   | (16,867,146)       |
| Discretionary Reliefs   | (1,198,719)        |
| Discretionary Reliefs Funded by S31 Grant   | (41,755,599)       |
| <b>Net Business Rates Payable</b>   | <b>271,516,802</b> |
| Estimated Bad Debts and Appeals   | (24,948,655)       |
| <b>Net Business Rates Less Reliefs and Losses</b>                                   | <b>246,568,147</b> |
| Cost of Collection  | (727,168)          |
| Amount Retained for Renewable Energy Schemes  | (79,268)           |
| <b>NDR Income – Total</b>   | <b>245,761,711</b> |
| <b>NDR Income – Islington (30% share)</b>   | <b>73,728,513</b>  |
| Plus: Section 31 Grant  | 23,545,737         |
| <b>Total Retained Income – Islington</b>  | <b>97,274,250</b>  |

6.18. The 2022/23 NNDR1 return also includes a forecast 2021/22 surplus/(deficit) on business rates income to be incorporated in the 2022/23 budget. This is summarised in **Table 24**. The 2022/23 budgetary impact of the council's share of this deficit will be fully offset by a transfer from the Core Funding reserve that has been earmarked for this purpose.

**Table 24 – Forecast NNDR Surplus/(Deficit)**

|  | <b>Total<br/>£</b>  | <b>Islington 30%<br/>Share<br/>£</b> |
|--|---------------------|--------------------------------------|
| Net 2021/22 Business Rates Income  | 221,626,761         | 66,488,028                           |
| Allowance for Non-Collection   | (6,648,805)         | (1,994,642)                          |
| Appeals Refunds and Provisions   | (3,607,643)         | (1,082,293)                          |
| Budgeted Demand based on 2021/22 Agreed Budget                                     | (297,036,585)       | (89,110,976)                         |
| Other Charges (e.g., cost of collection)   | (823,073)           | (246,922)                            |
| <b>Total 2021/22 Surplus/(Deficit)</b>   | <b>(86,489,345)</b> | <b>(25,946,805)*</b>                 |
| Opening 2020/21 Surplus/(Deficit)  | (73,993,217)        | (22,197,965)                         |
| 2021/22 Contribution towards Prior Year Deficit                                    | 77,314,613          | 23,194,384                           |
| Adjustment for Three-Year Phasing of 2020/21 Exceptional Balance (2023/24 Element) | 3,671,089           | 1,101,327                            |
| <b>Total Surplus/(Deficit) in 2022/23 Budget</b>                                   | <b>(79,496,860)</b> | <b>(23,849,058)</b>                  |



*\*This 2021/22 Deficit of £25.947m (Islington share) is largely offset by £20.848m of forecast unbudgeted Section 31 grant receivable in 2021/22 to compensate for the impact of government reliefs. The overall forecast position on 2021/22 business rates, net of this timing difference, is therefore an underlying deficit of £5.099m.*

- 6.19. On 25 March 2021 the government announced a new COVID-19 Additional Relief Fund (CARF). CARF scheme guidance was published by the government on 15 December 2021 and £17,161,221 was allocated to Islington Council. The CARF scheme is intended to support those businesses affected by the pandemic but that, to date, have been ineligible for existing support linked to business rates. The council is responsible for designing the discretionary CARF scheme that will operate in its area and the proposed approach is set out at **Appendix F**.
- 6.20. In the 2018 Budget, the government introduced a new relief scheme for retail properties and these 'retail relief' schemes have existed, albeit with some variations, since the 2019/20 financial year. **Appendix G** addresses the need to formally adopt the government's scheme variations for the financial years 2021/2022 and 2022/2023.

## **7. Matters to Consider in Setting the Budget**

### **Comments of the Section 151 Officer**

- 7.1. This section contains the Section 151 Officer's comments on the robustness of the estimates included in the budget and the adequacy of the proposed financial reserves, as required under Section 25(1) of the Local Government Act 2003. Section 25(2) of the same Act requires the authority to have regard to this report of the Section 151 Officer when making decisions about the budget and the level of council tax.
- 7.2. Developing the budget estimates for a given financial year is an ongoing, iterative process within the medium-term financial planning cycle. This is a council-wide process involving all spending departments whereby estimates are work up, challenged and refined as further information becomes available. It takes into account the most recently available budget monitoring information and the latest assumptions for the forthcoming financial year. In particular, the proposed savings have been reviewed and signed off as deliverable by key stakeholders across the organisation. The thoroughness of this process is a key source of assurance in determining that overall estimates in the budget (including contingency) are robust and that financial reserves, whilst needing to be further strengthened, are adequate.
- 7.3. During the 2021/22 financial year the council's Policy and Performance Scrutiny Committee considered numerous reports and testimony in relation to the council's financial position as a result of COVID-19. This additional scrutiny gave the committee opportunity to consider lots of different evidence and viewpoints to better understand the decisions that have been made whilst also gaining a wider appreciation of the environment in which the council is operating. This additional level of scrutiny provides the Corporate Director of Resources with further assurance on the robustness of the 2022/23 budget estimates.

- 7.4. An initial compliance analysis against the CIPFA Financial Management Code has been undertaken as part of the 2022/23 budget assurance work. The CIPFA Financial Management Code applies a principle-based approach. It does not prescribe the financial management processes that local authorities should adopt. Instead, the CIPFA Financial Management Code requires that a local authority demonstrates that its processes satisfy the principles of good financial management for an authority of its size, responsibilities and circumstances. Each local authority should demonstrate that the requirements of the CIPFA Financial Management Code are being satisfied. Demonstrating this compliance with the CIPFA Financial Management Code is a collective responsibility of elected members, the Section 151 Officer and professional colleagues in the leadership team.
- 7.5. The initial compliance analysis is included at **Appendix H** and shows that the council achieves a high level of compliance against the vast majority of the CIPFA Financial Management Code statements of standard (or best) practice. Where there is only a medium level of compliance, actions are suggested that would take the council to high level. The compliance analysis should be seen as an organic piece of work, re-visited at least annually as part of the budget process, with any actions or recommendations implemented on an ongoing basis.
- 7.6. The medium-term local government funding outlook continues to be highly uncertain. The 2022/23 local government finance settlement is the fourth consecutive one-year settlement. It is largely a rollover of the 2021/22 settlement with additional, one-off funding to address immediate funding issues in the sector. In addition, there are potential government funding reforms on the horizon that could have a significant impact on funding levels, although there would be transitional protections.
- 7.7. The robustness of all assumptions, including delivery of savings, will next be reviewed in early spring 2022 in order to shape the new medium-term budget setting process from 2023/24 and estimated additional savings requirement. Given the unprecedented uncertainty and the lead-time in identifying and delivering savings, it is crucial that assumptions remain prudent in line with the MTFS principles set out in this report.

### **Comments of the Monitoring Officer**

- 7.8. This report set out the basis upon which a recommendation will be made for the adoption of a lawful budget and the basis for the level of the council tax for 2022/23. It also outlines the council's current and anticipated financial circumstances, including matters relating to the General Fund budget and MTFS, the HRA, the capital programme and borrowing and expenditure control.
- 7.9. The setting of the budget and council tax by Members involves their consideration of choices. No genuine and reasonable options should be dismissed out-of-hand and Members must bear in mind their fiduciary duty to the council taxpayers of Islington.
- 7.10. Members must have adequate evidence on which to base their decisions on the level quality at which services should be provided. Where a service is provided pursuant to a statutory duty, it would not be lawful to fail to discharge it properly or abandon it, and where there is discretion as to how it is to be discharged, that discretion should be exercised reasonably.

- 7.11. The report sets out the relevant considerations for Members to consider during their deliberations and Members are reminded of the need to ignore irrelevant considerations. Members have a duty to seek to ensure that the council acts lawfully. They are under an obligation to produce a balanced budget and must not knowingly budget for a deficit. Members must not come to a decision which no reasonable authority could come to; balancing the nature, quality and level of services which they consider should be provided against the costs of providing such services
- 7.12. Under the constitutional arrangements, the setting of the council budget is a matter for the council, having considered recommendations made by the Executive. Before the final recommendations are made to the council, the Policy and Performance Scrutiny Committee must have been given the opportunity to scrutinise these proposals and the Executive should take into account its comments when making those recommendations.

### **Equalities Impact Assessment**

- 7.13. The council must, in the exercise of its functions, have due regard to the need to eliminate discrimination, harassment and victimisation, and to advance equality of opportunity, and foster good relations, between those who share a relevant protected characteristic and those who do not share it (Section 149 Equality Act 2010). The council has a duty to have due regard to the need to remove or minimise disadvantages, take steps to meet needs, in particular steps to take account of disabled persons' disabilities, and encourage people to participate in public life. The council must have due regard to the need to tackle prejudice and promote understanding.
- 7.14. After more than a decade of significant budget savings, it is difficult to make new savings without any impact on residents. There will inevitably be some impact on particular groups, including those with protected characteristics as defined by the Equality Act. The council is not legally obligated to reject savings with negative impacts on any particular groups but must consider carefully and with rigour the impact of its proposals on the Public Sector Equality Duty, take a reasonable and proportionate view about the overall impact on particular groups and seek to mitigate negative impacts where possible.
- 7.15. The cumulative EQIA assessment of the budget proposals is set out at **Appendix I**. It is supplemented at a departmental level by detailed EQIAs of major proposals. These demonstrate that the council has met its duties under the Equality Act 2010 and has taken account of its duties under the Child Poverty Act 2010.

### **Budget Consultation**

- 7.16. Section 65 of the Local Government Finance Act 1992 requires the council to consult persons or bodies representative of business ratepayers about expenditure proposals.
- 7.17. The council must make available the information described in the Non-Domestic Ratepayers (Consultation) Regulations 1992/3171, including:
- Details of proposals for expenditure in the financial year to which the consultation relates.
  - Estimates of expenditure in the preceding financing year.
  - Particulars of significant changes in the level of proposed expenditure between the two years.

7.18. The council invited comments from business rates payers and representatives of business rates payers in Islington on the draft 2022/23 budget proposals. The consultation period ran for 21 days from 6 January 2022 to 26 January 2022. No responses were received.

### **Annual Pay Policy Statement**

7.19. Section 38 of the Localism Act 2011 requires local authorities to publish an annual 'Pay Policy Statement', setting out their policies in respect of chief officer remuneration and other specified matters. Regard must be had to guidance to be published by the Secretary of State in preparing the statement, which must be approved by Full Council. The council is then constrained by its pay policy statement when making determinations on chief officer pay, although the statement may be amended at any time by a further resolution of Full Council. The council's Annual Pay Policy Statement for 2022/23 is provided at **Appendix J**.

### **Appendices**

Appendix A – General Fund Medium-Term Financial Strategy 2022/23 to 2024/25

Appendix B – General Fund Proposed Savings 2022/23

Appendix C1-4 – General Fund Fees and Charges 2022/23

Appendix D1 – HRA MTFS 2022/23 to 2024/25

Appendix D2 – HRA Fees and Charges 2022/23

Appendix D3 – Leaseholder Service Charges Proposal

Appendix E1 – Capital Programme 2022/23 to 2024/25 (and indicative 2025/26 to 2031/32)

Appendix E2 – Capital Strategy 2022/23

Appendix E3 – Investment Strategy 2022/23

Appendix E4 – Minimum Revenue Provision (MRP) Policy Statement 2022/23

Appendix E5 – Treasury Management Strategy 2022/23

Appendix F – COVID-19 Additional Relief Fund 2021/22

Appendix G – Expanded Retail Discount 2021/22 and Retail Hospitality and Leisure Relief Scheme 2022/23

Appendix H – Initial Assessment of Compliance against CIPFA FM Code

Appendix I – Budget Cumulative Equality Impact Assessment 2022/23

Appendix J – Annual Pay Policy Statement 2022/23

**Background papers:** None

**Signed by:**



2 February 2022

Executive Member for Finance and Performance

Date

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